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RETIREMENT SYSTEMS FOR MUNICIPAL EMPLOYEES

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The need of retirement systems for employes is generally recognized by far-sighted employers of labor. It is well understood nowadays that the practice of retaining on the pay-roll aged workers who can no longer render a fair equivalent for their wages is wasteful and demoralizing. The loss is twofold. In the first place, there is the direct loss involved in the payment of full wages to workers who are no longer reasonably efficient, and, in the second place, there is the indirect loss entailed by the slow pace set for the working force by the presence of worn-out veterans, and the consequent general demoralization of the service. On the other hand, it is certainly not a humane course to discharge employes who have grown old in the service and have not accumulated a sufficient amount to provide for their maintenance. Recognizing these considerations, many large corporations have in recent years introduced pension systems for their employes. The list of pensioning corporations is most impressive; it includes a large number of the leading railroads and industrial corporations of the country. It may be said that the provision of retirement allowances for employes has become a feature of the policy of the railroads and the trusts in dealing with the labor force.

The general nature of the leading schemes is substantially the same. Provision is made for the voluntary or compulsory retirement of employes at a certain age, with weekly or monthly allowance. The amount of the allowance is determined by the length of service and the wages of the employe. It is usually calculated on a basis of a certain percentage of the average wages for each year of service. The expenses of the pension system are commonly borne by the employer, without contribution from the employe. Often the pension system is combined with provision for sickness and accident insurance, organized on a contributory basis.

The reasons that have induced corporate employers to make provisions for the retirement of aged workers would seem to hold

good in the case of municipalities. Indeed, the considerations pointing to the expediency of establishing retirement systems have double force in the field of municipal employment. Here personal and political influences come into play to prevent the discharge of employes who have outlived their usefulness; the loss from the retention of inefficient veterans on the pay-roll is probably greater than in the case of the private corporations. Thus the general reasons of economy and efficiency which call for the establishment of retirement systems are re-enforced by special considerations in the field of municipal employment.

Notwithstanding the evident advantages of a retirement system, no American city has yet established a general plan of superannuation allowances for its employes. The comparatively few pension plans now in operation in this field provide only for special classes of employes, chiefly firemen, policemen and teachers. A circular of inquiry sent out by the writer as investigator for the recent Massachusetts Commission on Old-age Pensions to the 33 cities in Massachusetts and to 94 cities in the country outside of Massachusetts, having a population of 25,000 or over, brought 86 replies. Of the 86 cities from which replies were received, 43 reported that no pensions of any kind were paid to public employes. Of the 43 cities having pension schemes of some sort, 38 cities pension policemen, 37 cities pension firemen and 12 cities pension teachers. Grouping the 43 cities according to the extent of the pension provisions, it appears that 10 of the cities have pension schemes for policemen, firemen and teachers, 23 for policemen and firemen, 2 for policemen and teachers, 5 for firemen alone, and 4 for policemen alone.

In 1910 the Massachusetts Legislature passed a general enabling act authorizing cities and towns to establish retirement systems for their employes. This is the first law of the kind to be placed on the statute books of an American state. No municipality, however, has yet taken advantage of the permissive provisions of this measure.

In contrast with American cities in this respect, European cities have generally adopted pension schemes of one sort or another for their employes. Indeed, it is a striking commentary on the backwardness of American municipal administration as compared with European that the leading cities of Europe have all established general retirement systems for their employes, while no American city thus far has taken such action.

There is a wide variety of detail in the provisions of municipal pension systems in Europe. Information concerning the pension provisions in 24 of the leading cities of Great Britain and the European continent was collected by the Massachusetts Commission, to which reference has just been made. It appears that the age of retirement in these schemes is variously fixed at 60, 65 and 70. The age 60 is the one selected in ten cases, the age of 65 in eight, and the age 70 in one. In the remaining four schemes retirement is conditional upon the completion of a certain period of service and not upon the attainment of a specified age. The schemes are about equally divided between the contributory and the non-contributory principle. Thirteen are contributory; that is, the expense is borne, in part, at least, by the participating employees. Eleven are wholly non-contributory; that is, the cost is defrayed entirely by the city. The amount of the employee's contributions varies from $1\frac{1}{2}$ to $5\frac{1}{2}$ per cent. of the wages or salary; the usual percentage is three. The amount of the pension is usually a certain proportion of the wages or salary of the employee, according to the length of service; the limits range from one-sixth to seven-tenths of the salary. All but two of the schemes provide for retirement in the event of incapacity, regardless of age.

The first question that arises in drawing up any plan of retirement allowances is whether the system should be contributory or non-contributory. Most existing pension systems in this country, including the corporation plans, as well as the special schemes for policemen, firemen and teachers, are wholly non-contributory; no part of the expense is assessed upon the beneficiaries. The wisdom of such non-contributory pension schemes is extremely doubtful. In particular, municipal employees receive good wages, and ought to be called upon to bear at least some part of the expense of a retirement system. The non-contributory principle enormously increases the expense of providing pensions. The effect of purely gratuitous pensions on the beneficiaries themselves is likely to be somewhat demoralizing. And the payment of non-contributory pensions to municipal employees tends to encourage agitation for the introduction of general state pension schemes for the aged. For these reasons it seems desirable that whatever may be done in the future in the way of providing retirement allowances for municipal employees should be based on the contributory principle.

On the other hand, it is just and reasonable that the municipalities should contribute something to the fund out of which allowances to superannuated employes are paid. Such contributions are to be regarded in the nature of extra compensation for long, faithful and efficient service. That is, in addition to the payment of current wages the municipality may properly undertake to pay a special extra allowance to workers who remain in the service a certain period of years and reach a certain age, meanwhile contributing to a fund for the provision of annuities for themselves in the event of their retirement. This is the logical justification for contributions to pension funds by employers of labor, whether private, corporate or public. The equitable arrangement in the case of municipal pensions appears, therefore, to be a division of the expense between the municipality and the employes on a basis of joint contributions.

The retirement plan embodied in the act passed by the Massachusetts Legislature in 1910 is based on this principle of joint contributions. The employes are to be assessed regularly on their wages and salaries at the rate of not less than one nor more than five, per cent., to provide a fund out of which annuities shall be paid to those retired from the service. Exception is made, however, in the case of employes receiving more than \$30 per week; such employes are not to be assessed on the excess above that amount, but simply on the flat basis of \$30 per week. The annuity received by each employe retired under the provisions of the act is such amount as his contributions during his period of service, accumulated with interest at 3 per cent. compounded semi-annually, will provide for him according to actuarial computation. In addition to the annuity, the employe is to receive in each case a pension of equivalent amount paid from the public treasury. In no case is the total allowance, including annuity and pension, to be less than \$200 per year, or more than one-half the average wages or salary during the ten years prior to retirement.

The age of voluntary retirement is fixed at 60 years; that is, employes who have reached that age may retire or may be retired by the board intrusted with the administration of the act. The age of compulsory retirement is fixed at 70 years; that is, employes who have reached that age must retire or be retired. An additional requirement of 15 years' continuous service is laid down for employes

retiring or retired at the age of 60. Furthermore, employees who have served 35 years continuously may retire or be retired at any age.

Participation in the retirement system is optional for present employees. It is obligatory for future employees, those entering the service after the establishment of the retirement system, with the exception of officers elected by popular vote and employees eligible for a pension from the municipality for any reason other than membership in the association.

In addition to pensions for subsequent service, pensions for prior service are provided; that is, employees in the service when the retirement plan is established are to receive, in addition to the pension which they may secure through their contributions to the annuity fund, an extra allowance equal to the amount of the annuity that they might have earned for themselves had the scheme been in operation when they entered the service and had they made contributions to the fund from that time in proportion to their current wages or salaries. It should be noted, further, that employees who had reached the age of 60 years when the retirement system was established, and employees who had reached the age of 55 years at that date and also became members of the association, may be retired with pensions for prior service without having completed the otherwise required service period of 15 years. Employees who had reached that age and declined to join the association may be retired with the minimum allowance provided in the act.

Provision is made for refunding the contributions of employees who withdraw from the service without becoming entitled to a pension. In case a member of the association leaves employment for any cause other than death before becoming entitled to a pension, there shall be refunded to him all the money that has been paid in by him, with regular interest. In case a member of the association dies before becoming entitled to a pension, there shall be paid to his legal representatives all the money that has been paid in by him, with such interest as may have been earned on the deposits.

The administration of the system is intrusted to a Board of Retirement, consisting of the city or town treasurer, *ex officio*, another member chosen by the Retirement Association composed of the participating employees, and a third member selected by the first two, or appointed by the mayor or the chairman of the Board of

Selectmen in case of their failure to agree. The Insurance Department of the Commonwealth is given certain powers of supervision with reference to the actuarial and administrative features of the system.

Thus far the case in favor of the establishment of some system of retirement allowances for municipal employes has been stated without direct reference to objections that have been urged against the proposed policy. It remains now to consider some of these objections. The economy of a pension system for municipal employes is not universally admitted. In general, the objection has been raised that the conditions of the municipal service are essentially different from those of the private service of the railroad and industrial corporations, and that consequently, while it may be sound policy for the latter to adopt pension systems, it would be unwise and wasteful in the case of the cities. Municipal administration, it is said, involves financing out of other people's pockets. The natural tendency, therefore, is toward extravagance and corruption. The element of politics must be taken into account. The establishment of a general retirement system for employes would furnish corrupt politicians new means of exploiting the taxpayers. For example, men might be placed on the pay-roll and then retired promptly to make room for others. Thus the pension roll might be padded like the pay-roll.

The force of this argument depends on the nature of the retirement system adopted and the safeguards thrown about its administration. The objection carries weight against any loosely drawn pension measure giving large powers to the officials entrusted with its administration, and permitting political influences to enter into the management of the system. It does not hold, however, against the plan embodied in the Massachusetts act. In this measure the conditions of retirement are definitely prescribed. In the case of employes entering the service after the system is established, retirement can take place only after the completion of 15 years of continuous service. The employes, furthermore, contribute to the retirement fund, and the size of the retirement allowance in each case depends upon the length of service and the amount of contribution. The system thus affords no chance to hand out gratuities indiscriminately. It may also be pointed out that the members of the Board of Retirement are to serve without pay. Moreover, the

approval of the municipal council is required in the case of expenditures incurred by the board. Again, the make-up of the board, as provided for in the act, is not likely to be determined by political influences. Finally, the system is placed under the supervision of the State Department of Insurance as regards its actuarial and administrative features. The argument in question is thus deprived of its force by the provisions of the Massachusetts plan.

A popular objection to municipal pensions, which influences many voters and taxpayers to oppose the establishment of retirement systems for city employes, emphasizes the injustice of taxing workers in general for the benefit of a special class of employes. The attitude of the man who urges this objection is that the class of municipal employes is a peculiarly favored one; its members draw good pay in easy berths. They ought to take care of themselves in old age. "Why should I be taxed," the objector asks, "in order to provide pensions for this favored class?" If pensions are to be granted at all, it is contended, they ought to be passed around to workers of all classes. It is unjust to single out any special group of beneficiaries. In this connection there appears to be a particularly strong objection in the minds of many opponents of municipal pensions to the payment of retirement allowances to clerks and salaried employes. Some who approve of retirement allowances for common laborers earning small wages, strenuously object to the extension of the benefits of the retirement system to better paid employes. It is argued, in support of this objection, that the handicap of age is much less in the case of clerical employes than in the case of manual laborers. It is said that an old man can push a pen when he could not swing a pick effectively.

The latter consideration contains a measure of truth; but the handicap of inefficiency is certainly there in the case of a clerical staff made up largely of old men, even if the loss on this account is less serious. Moreover, even if salaried employes ought to be expected to accumulate enough for their maintenance in old age, they do not, as a matter of fact, usually make such provision. The fact that an employe draws a good salary is no guarantee that he will not be found entirely resourceless when he reaches the age at which retirement in the interests of the service should take place. The city is confronted in this case with the dilemma of discharging a worn-out employe without means of support or retaining him to the disadvantage of the service.

As regards the fundamental objection that it is an injustice to tax the workers in general for the benefit of public employes in particular, it is to be observed that this contention rests on the assumption that a retirement system must involve an additional burden on the taxpayers. This assumption is entirely gratuitous. It would certainly not hold true of a properly organized contributory system with a large share of the expense borne by the employes. Private corporations even regard a wholly non-contributory system, in which the pensions are paid entirely by the employer, as economical. It is reasonably certain that a contributory system, such as is proposed in the Massachusetts act, would, in the long run, save money for the taxpayers. Such saving would be effected in three ways: First, through elimination of the direct waste of money paid to aged employes who had outlived their usefulness; second, through stoppage of the indirect loss entailed by the slow pace forced upon the rest of the workers by the presence of inefficient veterans; third, through the positive gain that would result from the substitution of younger men for the superannuated employes, from the increased efficiency promoted by the retirement system, and, possibly, from the attraction of a higher grade of men into the municipal service.

The Massachusetts plan, in particular, has certain features that should commend it strongly to persons viewing this question from the standpoint of the good of the public service or the interests of the taxpaying public. It is not a straight pension scheme, but is more accurately described as a plan of assisted age insurance for municipal employes, to be financed by joint contributions of the two parties concerned. In this respect it has distinct advantages over the pension schemes for policemen, firemen and teachers now in force, and the retirement systems of most railroad and industrial corporations. The beneficiaries are not offered a sheer gratuity or simple hand-out, but a retirement allowance provided in large part by their own contributions from their current earnings. There is no sentiment or philanthropy in the proposed plan; it is a plain business proposition. The city is not asked to "take care of" its employes for their benefit alone, but rather to take measures to promote a higher degree of economy and efficiency in the municipal service. Unquestionably, the system would, in the long run, diminish rather than increase the taxpayers' burden. Not the least of

the advantages promised by the system is that it would put an end to special legislation in this field by providing a comprehensive and logical solution of the retirement problem, which has thus far been dealt with only in piecemeal fashion. The multiplication of special pension acts for various classes of municipal employes, often inconsistent and contradictory in their provisions, involves confusion and injustice. The wise course is to adopt a system that will make provision for the entire force of employes once for all. The adoption of such a system is an essential condition for the development of a thoroughly satisfactory municipal service. Until this course is taken the service will continue to be handicapped by the dead weight of inefficiency, resulting from the continuance in employment of large numbers of worn-out workers.